

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

NOTICE OF MARKET-DOMINANT
PRICE ADJUSTMENT

Docket No. R2017-1

**RESPONSE OF UNITED STATES POSTAL SERVICE
TO QUESTIONS 1 and 4 OF CHAIRMAN'S INFORMATION REQUEST NO. 3
(October 26, 2016)**

The Postal Service hereby files its responses to the above-captioned questions from Chairman's Information Request (CHIR) No. 3, issued on October 19, 2016. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing & Product Support

Kara C. Marcello
Ashley S. Silberhorn

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1135
(202) 268-2963, FAX: -6187
ashley.s.silberhorn@usps.gov
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1. On October 18, 2016, the Bureau of Labor Statistics revised the CPI-U for May 2016, June 2016, July 2016, and August 2016. Bureau of Labor Statistics, CPI Detailed Report (table 1-29 only), September 2016, at 82, available at <http://www.bls.gov/cpi/cpid1609.pdf>. Specifically, the CPI-U for May 2016 was revised downward from 240.236 to 240.229, the CPI-U for June 2016 was revised downward from 241.038 to 241.018, the CPI-U for July 2016 was revised downward from 240.647 to 240.628, and the CPI-U for August 2016 was revised downward from 240.853 to 240.849. *Id.* Please confirm that the table below represents the Postal Service's available price adjustment authority by mail class. If confirmed, please update Attachment C to the Notice and provide updated workpapers. If not confirmed, please explain.

Class	Available Price Adjustment Authority (%)
First-Class Mail	0.802%
Standard Mail	0.927%
Periodicals	0.870%
Package Services	1.049%
Special Services	2.581%

RESPONSE:

Not confirmed. As explained below, the Postal Service believes that revising its available price adjustment authority after it files a notice of market dominant price adjustment is generally incompatible with section 3622's establishment of "a modern system for regulating rates," is inconsistent with the Commission's rules, and could have significant adverse consequences in future price adjustment cases that are not implicated here. Using the revised figures the Bureau of Labor Statistics (BLS) provided on October 18, 2016, however, the results would be as stated in the table. Further, although as noted herein we do not believe it is appropriate to revise our available price adjustment authority, the prices proposed by the Postal Service in this case nevertheless remain within even the revised limits. If the Commission determines that the Postal Service is

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required to revise our price adjustment authority despite our opposition, we are prepared to provide an update to Attachment C to the Notice and to the related workpapers.

As acknowledged in the Postal Service's Notice of Market Dominant Price Adjustment filed on October 12, 2016,¹ section 3622(d)(1) of title 39 provides that an annual inflation-based limitation, or price cap, on the percentage change in rates for market dominant products "will be equal to the change in the Consumer Price Index for All Urban Consumers [CPI-U] unadjusted for seasonal variation over the most recent available 12-month period preceding the date the Postal Service files notice of its intention to increase rates."² The Postal Service's calculation of its overall price adjustment authority by mail class in this proceeding reflects the most recent CPI-U numbers available to the Postal Service on October 12. Therefore, the Postal Service maintains that Attachment C and the workpapers as filed represent the Postal Service's available price adjustment authority by mail class, in accord with the PAEA.

The Commission's request raises a number of issues and unanswered questions, all of which would be more aptly addressed in a rulemaking proceeding, if at all. It is unclear whether the Commission is adopting a categorical "rule" under which the Postal Service will be required to update its price adjustment authority whenever the BLS amends previously issued CPI-U numbers, or whether the Commission is merely exercising its judgment in the instant case and may issue a similar request in the future. If the latter, does the

¹ United States Postal Service Notice of Market Dominant Price Adjustment, Docket No. R2017-1 (Oct. 12, 2016), at 3.

² 39 U.S.C. § 3622(d)(1)(A) (emphasis added).

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Commission consider the degree of the CPI-U change itself, the impact on the Postal Service's proposed prices, and/or the stage of the proceeding? If the Postal Service had filed its annual price adjustment immediately following the release of the August CPI-U, on September 16, would the Commission have required the Postal Service to adjust its overall price adjustment authority as part of the ongoing proceeding when the BLS amended the May-August CPI-U figures 32 days later? If so, would the Commission allow for a second comment period to solicit input from interested parties, given that the Commission's rules contemplate that "[p]ublic comments should focus primarily on whether planned rate adjustments comply" with Rule 3010.23, and Rule 3010.21 or Rule 3010.22, as applicable.³ Alternatively, in the event that the BLS issued its revisions 32 days after the Postal Service filed its notice, and the revisions would push the Postal Service's proposed prices over the price cap, would the Commission have found the planned rate adjustment inconsistent with applicable law, and required the Postal Service to submit an amended notice of rate adjustment pursuant to Rule 3010.11(f) in order to extend its review period? Lastly, what course of action would the Commission take if the BLS amended its previously released CPI-I *after* the Commission issued its final order in the docket, but before the Postal Service implemented the new prices?

Furthermore, consistent with the command of section 3622(b)(2) (Objective 2) that the modern system for regulating rates "create predictability and stability in rates," the Postal Service's position avoids injecting a layer of uncertainty and

³ 39 C.F.R. § 3010.

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complexity into market dominant rate adjustment proceedings. The BLS itself acknowledges that the CPI-U is considered final when released.⁴ The PAEA and the Commission's rules constrain the length of market dominant rate adjustment proceedings; the Postal Service must notify the public and the Commission of its intention to adjust rates no later than 45 days before the intended implementation date of the adjustments,⁵ and the Commission has 34 days from the date of the Postal Service's filing to "determine, at a minimum, whether the planned rate adjustments are consistent with the annual limitation calculated under § 3010.21 or § 3010.22, as applicable, the limitation set forth in § 3010.29, and 39 U.S.C. 3626, 3627, and 3629 and issue an order announcing its findings."⁶ Clearly, neither the Commission nor the Postal Service can control when the BLS corrects previously released CPI-U, but requiring the Postal Service to account for such corrections at any point during a price adjustment proceeding may require proposed rates to change, which may in turn force the Postal Service to delay implementation in order to meet the 45 day notice requirement. These changes would likely prove detrimental to both the Postal Service and its customers.

⁴ Bureau of Labor Statistics, Economic News Release (Oct. 18, 2016), *available at* <http://www.bls.gov/news.release/cpi.nr0.htm> ("It is important to note that the CPI-U and CPI-W are considered final when released, but the C-CPI-U is issued in preliminary form and subject to two annual revisions.")

⁵ 39 U.S.C. § 3622(d)(1)(C)(i)-(ii), 39 C.F.R. § 3010.10(a)(1)-(2).

⁶ 39 C.F.R. § 3010.11(d).

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4. The Postal Service files quarterly Special Services Billing Determinants with the Commission. For purposes of this request, please refer to the FY 2015 Quarter 4, FY 2016 Quarter 1, FY 2016 Quarter 2, and FY 2016 Quarter 3 International Market Dominant Products Billing Determinants previously filed with the Commission⁷ and Library Reference USPS-LR-R2017-1/5, Excel file "CAPCALC-INTLSpecServ-R2017-1.xlsx," filed October 17, 2016, in this docket.
- a. Please confirm that that the combined volume for International Certificates of Mailing for Multiple Pieces with One Certificate for up to 1000 pieces for FY 2015 Quarter 4, FY 2016 Quarter 1, FY 2016 Quarter 2, and FY 2016 Quarter 3 is 781.679245283019, as stated in Excel file "CAPCALC-INTLSpecServ-R2017-1.xlsx," tab "Q415-Q316 MD SUMMARY," cell I15. If confirmed, please explain why it is the only fractional volume provided in the file. If not confirmed, please explain.
 - b. Please confirm that the previously filed Billing Determinants for International Certificates of Mailing for Multiple Pieces with One Certificate for up to 1000 pieces are 75,563, 43,493, 29,535, and 106 for FY 2015 Quarter 4, FY 2016 Quarter 1, FY 2016 Quarter 2, and FY 2016 Quarter 3, respectively, as stated in Excel files "q415_mkt_dominant_intl_bd.xlsx," "q116_mkt_dominant_intl_bd.xlsx," "q216_mkt_dominant_intl_bd.xlsx," and "q316_mkt_dominant_intl_bd.xlsx," tabs "INTL FEES & SERVICES," cells G18. If not confirmed, please explain.
 - c. Please confirm that the volume quantity for International Certificates of Mailing for Multiple Pieces with One Certificate for up to 1000 pieces provided in Excel file "CAPCALC-INTLSpecServ-R2017-1.xlsx" is inconsistent with the sum of the previously filed Billing Determinants. Please explain the approximate 147,915 difference between these figures. If necessary, please file revised billing determinants.
 - d. Please provide an explanation for the decreased volume of International Certificates of Mailing Multiple Pieces One Certificate for up to 1000 pieces from FY 2015 Quarter 4 through FY 2016 Quarter 3.

RESPONSE:

- a. The combined volume for International Certificate of Mailing for Multiple Pieces with One Certificate for up to 1,000 pieces is the only fractional volume because it is the calculated transaction volume, derived by

⁷ These were filed on December 29, 2015, March 2, 2016, June 28, 2016, and September 23, 2016, respectively.

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dividing the quarterly revenue by the fee for this Certificate of Mailing category. The Quarter 2, FY 2016 total was not rounded and was responsible for the fractional volume. In response to part (c) of this question, the Postal Service is submitting revised volumes for the bulk International Certificate of Mailing categories.

- b. Confirmed.
- c. Confirmed. The volume in the quarterly billing determinants is the total number of Certificate of Mailing Multiple Pieces for up to 1,000 pieces from the quarterly RPW extract files. By contrast, the volume used in the price cap workpapers is the transaction volume, derived by dividing the quarterly revenue by the fee, for this Certificate of Mailing category. This approach is consistent with the approach used for domestic bulk Certificate of Mailing.⁸ However, the combined volume provided in the workpapers originally filed inadvertently used RPW volumes for some quarters. Thus, the Postal Service is submitting a revised file "CAPCALC-INTL-SpecServ-R2017-1.xlsx" that uses transaction volumes for all four quarters, resulting in a revised hybrid-year total of 887.712418300654 transactions on tab "Q415 - Q316 MD REVISED 10-26-16." A similar error was also made for the Certificate of Mailing Multiple Pieces Duplicate Copy category; these volumes have been revised accordingly. The Postal Service is also submitting, concurrently with this response, a revised price cap file, "CAPCALC-SpecServ-R2017-1 Rev 10-25.xlsx," and an Excel file

⁸ Please see Excel file "CAPCALC-SpecServ-R2017-1 Rev 10-25.xlsx," tab "G-3 Certificates of Mailing," USPS-LR-R2017-1/5, filed concurrently with this response.

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that includes the revised quarterly transaction totals for Quarter 4 of FY 2015 through Quarter 3 of FY 2016 for this Certificate of Mailing category.

- d. The Postal Service has not studied the cause of the decreased volume for this category of mail.